



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

*Some OBSERVATIONS on the FALLACY of the WARBURTON ARGUMENT
in favour of an INDISCRIMINATING INCOME TAX.*

*By WILLIAM LUCAS SARGANT, author of "Social Innovators and
"their Schemes," "Science of Social Opulence," &c.*

[Read before the Statistical Society of London, 16th April, 1861.]

I.

It is impossible to invent a tax of any considerable amount, which shall prove generally acceptable to those who pay it. The Income Tax is certainly far from satisfying this condition: and it owes much of its unpopularity to the conviction of a large class that it is unequally levied. It seems a crying unfairness that the trader, the professional man, and the holder of a short annuity, should each of them pay the same as the landholder and the fundholder, whose incomes are permanent. The late Mr. Warburton, in evidence given before a Committee of the House of Commons, attempted to meet this objection; and we are told that in doing this, he only reiterated what had been said sixty years before by Mr. Pitt. Mr. Warburton said—"it is true that this unfairness exists, when an income tax is levied only for a year, or for a short term of years; but the remedy is easy, for make the tax perpetual and the inequality ceases. Then the physician, whose income may continue twenty years, will pay during twenty years; the merchant whose income may continue thirty years, will pay during thirty years; the short annuitant, whose income will cease at the end of five years, will pay during five years; whereas the landlord, or the holder of Consols, will pay, either by himself or by his successors, for an indefinitely long period."

This argument made converts of many persons, and at least furnished a plausible justification for those who were resolved to continue the tax. Practically indeed, the argument had little value; for the alleged equality could have place only on the supposition that the pressure of the tax on the landholder and the fundholder was permanently the same as the temporary pressure on the trader and on the short annuitant. But we have seen the rate 5*d.* in one year and 1*s.* 3*d.* in another; nor will any statesman venture to say that a uniform rate, like that of the land tax, is likely to be established.

I have no wish, however, to take advantage of this objection: I maintain that even if the rate were uniform from year to year, that even if we foresaw that for a hundred years to come 1*s.* in the

pound were certain to be levied, Mr. Warburton's argument would still be quite fallacious.

II.

But I may be asked, in what character I enter on this discussion, whether as a friend or as an enemy of this tax. I reply that my opinion of it is that very common one, which is none the less true for being common, that the income tax is very useful as an occasional subsidy, to stop a temporary gap, but obnoxious and dangerous as a permanent means of carrying on Government.

It has been remarked, and I think truly, that dividing politicians into two classes; of those who are in favour of a liberal government expenditure, and of those who are bent on cutting down the expenditure; the supporters of a liberal expenditure dread the income tax because its unpopularity renders its continuance precarious; whereas the economists delight in it, as continually hoping that the people may, at any time, compel the Government to repeal the tax, and consequently to contract their expenditure. As I happen to belong to the former class, I condemn the income tax because I anticipate that its unequal pressure, its inquisitorial character, and its annual direct and heavy appeal to the pocket, will at last wear out the patience of the payers, and compelling the Ministry to repeal it, will force an injurious parsimony on the administration of the country.

At present I am not stating anything on which I here desire to raise a discussion, I am only making a declaration of my financial faith. But I may be allowed, perhaps, to point out a clear distinction between two kinds of government expenditure—I mean the *occasional* and the *permanent* expenditure. It is alleged by the economists, that money spent by Government is profusely spent, and gets far less services in return than the same sum laid out by a private person. I acknowledge that this is true of occasional expenditure. I confess that if a gallery of pictures is to be removed, a picture dealer will get it done for himself at far less cost than if the same service be rendered to the nation; so a war, and especially the first years of a war, will be conducted extravagantly; but I cannot say that the same is true of the regular every-day functions of Government. The high Officers of State receive very moderate emoluments; the judges, considering the amount of work they perform, are only fairly paid; officers of the army get scarcely more than 5 per cent. on the prices of their commissions; the common soldier at thirteen pence a-day receives the wages of the lowest labourer. Then take the Poor Law. The relief it administers is, in my opinion, far more efficacious than the capricious dole of private charity, notwithstanding the large proportion of the rates expended on buildings and salaries.

But this is not all; we ought to look also at the incidence of the tax, or of the voluntary substitute for it. Where any function is performed by Government, the expense of it falls on the general fund of taxation, which is levied pretty equally on the people at large; when any public good is effected by individuals or by voluntary associations, the money to carry it out is generally furnished by a few persons; and everyone knows that a majority of the world, and even of the richest part of the world, absolutely refuses to render any considerable assistance. Government poor rates are paid by the mean-spirited as well as by the liberal; government education is paid for by the shabby rich as well as by the munificent; but hospitals, ragged schools, missions, and the thousand associations of the day, receive little aid from a vast number of persons in affluence.

It is hardly necessary, I suppose, to guard myself from the imputation of being indifferent to waste and profusion. Indeed, the desire I feel that Government should render liberal assistance to education and other means of social progress, furnishes an additional reason for ardently wishing to see economy practised in every department of the State. If a million could be saved annually in the dockyards, there would be a million at hand for further helps to society.

These are the reasons why I am favourable to a liberal expenditure on the part of Government; and because I am favourable to such an expenditure, I am desirous that taxes should be raised in a way not unnecessarily disagreeable to those who pay them. But all direct taxes are offensive, and of direct taxes the income tax is the most offensive.

III.

I have said this much on the income tax generally; I now come to the question I especially propose to deal with.

I should not have troubled the Statistical Society with this paper, had I not found Mr. Warburton's opinion recently reiterated in a periodical of high reputation. I had supposed that the fallaciousness of the argument had been understood; and that even those who could not say why it was unsound, felt that it was unsound. The recent article to which I have alluded, undeceived me.

Dr. Farr, several years ago, furnished this Society with a refutation of Mr. Warburton's opinion; but the paper in which the refutation occurred, was an exposition of an elaborate scheme of taxation, and touched but casually and slightly on the point in question; besides, it was unfit to be detached from the rest of the article, which was written in a scientific form. My remarks will have a more simple character.

Mr. Warburton's statement then is virtually this. One man has an *annuity* for a few years, another for ever. Let the tax be made *permanent and uniform*, then the short annuitant pays so long as his income lasts, the permanent annuitant also pays so long as his income lasts; thus the apparent injustice ceases. This is all that is required—a permanent and uniform tax; with that there cannot be any inequality.

Let us take a case to illustrate the argument. Let us say that I have an annuity of 2,000*l.* for ten years; if I am moderately prudent, I shall not now spend at the rate of 2,000*l.* a-year, since if I do so, and continue during the currency of the annuity to do so, I shall, at the end of the ten years, be a beggar. My course is a plain one; I must save a large part of my 2,000*l.* a-year, viz., so much of it that my savings, with the accumulations upon them, shall at the end of the ten years, be enough to furnish the same income that I have allowed myself to spend. By this means, I shall secure a continuance of my ordinary means of living, and shall, at the end of the ten years, be in the situation of a permanent annuitant. Reckoning interest for the sake of simplicity at 5 per cent., I may guess, after that rough fashion, in which most men conduct even important affairs, that I must limit my expenditure to barely 800*l.* a-year, and must save the remaining 1,200*l.* a-year. This 1,200*l.* a-year, together with compound interest at 5 per cent., will hardly in the course of ten years, amount to 16,000*l.*, the principal necessary to yield me, at 5 per cent., 800*l.* a-year. But I will say for the present that I may spend from the first 800*l.* a-year, and that then my savings will be sufficient to secure me 800*l.* a-year permanently. On this assumption, my 2,000*l.* a-year for ten years, is just the same thing to me as a permanent annuity of 800*l.* Practically this is an exaggerated estimate of my annuity.

But at the same time that I have become possessed of this annuity, with at the most 800*l.* a-year, you have become possessed of property that yields, and will continue to yield, 800*l.* a-year. It seems indisputable that you are at least in as good a condition as I am. You have permanently 800*l.* a-year to spend, I have permanently, barely 800*l.* a-year to spend. Supposing my permanent income to be as great as yours, the difference between us is one of form only.

It needs no argument to prove that we ought to pay the same income tax, since our incomes are virtually the same though formally different.

It would be sufficient here to cite the well-known maxim of Adam Smith, which has been quoted a hundred times before, that "the subject of every State ought to contribute towards the support " of the Government, as nearly as possible in proportion to their

“respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State. The expense of Government to the individuals of a great nation, is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate.”

I say I might safely shelter myself under this generally received dictum of a great writer. But in doing this, I should be availing myself of a maxim with which I do not agree. If the maxim be true, it follows that Sir Robert Peel was wrong when he exempted incomes under 150*l.* a-year, and that Mr. Gladstone was wrong when he exempted incomes under 100*l.* a-year; whereas, as I believe, Sir Robert Peel was perfectly right in his liberal exemption, and Mr. Gladstone was wrong, only in lowering the claim for exemption to incomes of 100*l.*, and was not wrong in continuing the modified exemption.

IV.

In the first part of the dictum which affirms that people should pay according to their *respective abilities*, I entirely concur; from the second part, which affirms that this ability is to be measured by the *respective revenues*, I as much dissent. If two persons have each of them 500*l.* a-year, they certainly ought to be called on to pay the same tax, since it is impossible for the Government to weigh the circumstances of every individual, and to diminish the charge on one because he has great claims upon him, or was brought up in affluence: while another has his tax heightened because he has risen in life and is wealthy, with ten times his original income. No free Government can descend to such details.

But comparing class with class, as should be done, I cannot see that the ability to pay taxes is in proportion to the income. There is a certain sum which is necessary to mere existence; among the educated classes, there is a certain sum which is necessary to save the owner from falling into a lower grade of society. We may say that 30*l.* to 40*l.* a-year is necessary to maintain a labourer with a family, and that 100*l.* a-year is almost as necessary to save a lady from losing her rank. Many clergymen, we know, do contrive to bring up a family and occupy the rank of gentlemen on 200*l.* a-year. But compare these necessary incomes with the larger incomes of 1,000*l.*, 2,000*l.*, or 10,000*l.* a-year. If you take 1*l.* from the labourer, 3*l.* from the lady, or 5*l.* from the curate, you take what is their very life; if you take from the owner of 1,000*l.* a-year 25*l.*, or from the owner of 2,000*l.* a-year 50*l.*, you remove merely the means of enjoying certain superfluities with which he can dispense. I do not believe, therefore, that men's ability to contribute is in proportion to their respective incomes.

This qualification of Adam Smith's maxim, however, does not seem to affect the case I have supposed; for I have assumed, not merely that you and I ought to pay in proportion to our respective incomes, but further, that we ought both to pay about the same tax, because we enjoy the same income.

But Mr. Warburton steps in at this point and says:—"Very well; I quite agree with you; you ought to pay the same income tax: more than this, I point out to you how to accomplish this equality of payment—make the tax permanent and uniform, then you will pay only for ten years, while your friend, and his heirs, will pay for an indefinite period."

To me the fallacy of this argument is apparent, and I think I can clearly expose it. At the end of the first year you have received 800*l.*, you have paid your income tax, say 30*l.*, and have spent the remainder; I have received 2,000*l.*, I have paid 75*l.* for income tax, and in order that I may save the necessary 1,200*l.*, I have limited myself to spending 725*l.* You have spent 770*l.*, I only 725*l.*, so that even in this first stage you are better off by 45*l.* than I am; this, however, is a trifle, which I will pass over for the present. What I want to know is, what is to become of this 1,200*l.* that I save? Of course I do not bury it in the ground; I invest it. Invest it! in what? In land, mortgage, shares, anything by which, as I assume, I get 5 per cent.

Let me come to the end of the second year. Again you have received 800*l.*, have paid 30*l.* for income tax, and have spent 770*l.*; I again have received 2,000*l.*, have paid 75*l.* income tax, and have spent 725*l.*—45*l.* less than you have. But of this repeated disadvantage I make no complaint. Another complaint, however, I have to make; it is about my savings of the first year. My 1,200*l.* invested at 5 per cent., yields me 60*l.*, and on this additional sum a further claim of income tax is made; a small sum no doubt, but an annoying aggravation, since the claim must be paid out of my 725*l.*, or else my aggregate savings will not be enough to replace my principal at the end of the ten years.

If we pass on to the third year, there is an augmentation of my grievance, since I have to pay not only the original 75*l.*, but tax on the investments of two years, amounting to nearly 5*l.* And in each successive year this oppression grows, until in ten years it becomes considerable.

But the greatest hardship of all remains behind. Mr. Warburton had promised me that at the end of ten years I should be tax free; whereas you would go on still paying: let us see what would be our respective situations at that date.

The income tax is levied as before, at 9*l.* in the pound. You continue to pay 30*l.* a year, but how am I placed? I have saved

each year 1,200*l.*, a sum which I have assumed to amount, with compound interest, to something like 16,000*l.* This sum of 16,000*l.* I have invested at 5 per cent., and I obtain from it an income of 800*l.*, the same income that you enjoy. But is Mr. Warburton's promise kept? Am I income tax free? Not at all; the tax is levied on my 800*l.* a-year just as much as upon yours; whether I have invested in land, or shares, or funds, I must pay my tax just as much as you must. No doubt my annual grievance is come to an end; I no longer pay tax on 2,000*l.* a-year; I now pay only as you do, on 800*l.* a-year, my real income. But the promise was, that at this period I should pay nothing: and I was asked to submit to an apparent injustice during ten years, on the ground that at the end of the time I should be tax free. This promise is entirely falsified.

How shall we account for this rashness of assertion on Mr. Warburton's part? I reply, that Mr. Warburton only saw half the truth. He was right in saying that at the end of the ten years the tax on the 2,000*l.* ceased, because the income of 2,000*l.* itself ceased. He did not pursue the matter any further: he did not sit down, pen in hand, to reduce to figures your income and mine, with the principal from which they were respectively derived: he saw clearly that when my income of 2,000*l.* ceased, the tax on it ceased also: he was contented with what he saw, and he honestly gave his evidence accordingly. The error is not nearly so strange an one as many others that have arisen from a half acquaintance with facts and figures. It is not half so strange as the authoritative resolution of the House of Commons, at the depth of the depreciation of paper, that a 1*l.* note and a shilling were together of equal value with a golden guinea. It is not half so strange as the universal belief with regard to the Sinking Fund, that at the time the nation was borrowing everything within its reach, that fund was actually operating towards a discharge of the national debt. It is not so strange as the opinion held by Locke, Montesquieu, and many others, and disproved by David Hume, that the abundance of gold and silver would permanently lower the rate of interest. Certainly, it is not nearly so surprising as a fallacious proposition of Jeremy Bentham's. That eminent philosopher was desirous, in his "Defence of Usury," to show his readers how they might evade the usury laws, and pay 10 per cent. if they pleased. His scheme will be found in letter viii. It will be seen that with such over ingenuity was it planned, that anyone adopting it would pay, not 10 per cent. as was intended, but no less than 110 per cent. for a year's interest. Mr. Warburton's fallacy was a venial one compared with these; his error was that of an able man who had hit upon a truth, but had

not been fortunate enough to become acquainted with another truth by which the former was modified and neutralized.

V.

I must now revert to one feature of the case, the consideration of which I thought it better to postpone.

I hope I have shown that I, with my ten years' annuity of 2,000*l.*, pay on 800*l.* a-year permanently, as you do: that in addition I pay on 1,200*l.* a-year for ten years; and that this 1,200*l.* a-year is not virtually income, but principal. But at the end of the first year, as I have already pointed out, I have invested 1,200*l.*, the first instalment of my capital; and at the end of the second year, this investment, at 5 per cent., yields me 60*l.* I am actually called on to pay tax upon this 60*l.*, while no such claim is made on you. The 60*l.*, like the 1,200*l.* already invested, is a part of that sum which it is necessary to invest, in order that at the end of ten years I may continue to enjoy an income of 800*l.* a-year. The 60*l.* is not virtually, but is only formally, income—it is really principal. The tax at 9*d.* in the pound, is 2*l.* 5*s.*, and this sum I cannot pay out of the 60*l.*, since if I do so, I shall fail at the end of ten years to have accumulated the 16,000*l.* required; I must pay the 2*l.* 5*s.* out of my income.

You and I will stand respectively thus: you have a clear income to spend of 800*l.*, less income tax at 9*d.*, 30*l.*, leaving 770*l.*: I have a *nominal* income of 800*l.*, less income tax like yours of 30*l.*, leaving nominally 770*l.*, the same sum that you have; but from this we have to deduct, first, tax at 9*d.* on principal of 1,200*l.*, making 45*l.*, and tax at 9*d.* on additional principal of 60*l.*, making 2*l.* 5*s.* The entire deductions from my 770*l.* are 47*l.* 5*s.*, and my net income is 722*l.* 15*s.*, against your 770*l.*

This additional tax of 2*l.* 5*s.* seems to constitute a small grievance, but it is something to a man who already pays 45*l.* more than he ought. Besides the evil is a growing one. What is 2*l.* 5*s.* the second year, becomes 4*l.* 12*s.* 3*d.* the third year, 7*l.* 2*s.* the fourth year, and no less than 24*l.* 16*s.* 2*d.* the tenth and last year; reducing my nominal income of 800*l.* this last year, to about 700*l.* against your 770*l.*

The subjoined Schedule (A) will show the progress of my investments, and of my income tax during the whole period:—

You receive regularly 800*l.* a-year, less tax 30*l.* = 770*l.*, I receive as follows:—

(A.)

Years.	Annuity, and Interest on Investments.		Which I divide into		Tax on Income.	Tax on Principal.		Amount left me to Spend.		
			Income.	Principal.						
	£	s. d.	£	£	s. d.	£	£	s. d.	£	s. d.
End of 1st year	2,000	— —	800	1,200	— —	30	45	— —	725	— —
„ 2nd „	2,060	— —	„	1,260	— —	„	47	5 —	722	15 —
„ 3rd „	2,123	— —	„	1,323	— —	„	49	12 3	720	7 9
„ 4th „	2,189	3 —	„	1,389	3 —	„	52	1 10	717	18 2
„ 5th „	2,258	12 2	„	1,458	12 2	„	54	13 11	715	6 1
„ 6th „	2,331	10 9	„	1,531	10 9	„	57	8 8	712	11 4
„ 7th „	2,408	2 3	„	1,608	2 3	„	60	6 1	709	13 11
„ 8th „	2,488	10 4	„	1,688	10 4	„	63	6 5	706	13 7
„ 9th „	2,572	18 10	„	1,772	18 10	„	66	9 9	703	10 3
„ 10th „	2,561	11 10	„	1,861	11 10	„	69	16 2	700	3 10
	—	—	—	15,093	9 2	—	566	— 1	7,133	19 11
Average of the 10 years	—	—	—	—	—	—	56	12 —	713	8 —
Amount invested during the 10 yrs.	—	—	—	15,093	9 2	—	—	—	—	—
Permanent income at 5 per cent. after the 10 years have expired	—	—	—	754	13 6	less {	9d. in the £ 28 6 —	—	726	7 6

From this schedule it appears, that besides the tax of 30*l.* a-year which I have paid just as you have, I have further paid during the ten years 566*l.*, or 56*l.* a-year; making altogether a payment of income tax on my part, nearly three times as great as yours. I have an income considerably less than yours, on which I shall have to pay 9*d.* in the pound just as you have. This schedule seems to me distinctly to falsify Mr. Warburton's promise, since I do not, at the end of the ten years, enjoy the immunity he held out.

But it may be said that my case is one arbitrarily assumed; that I may not, in fact, choose to save, and that on that supposition, Mr. Warburton's opinion is correct.

On this hypothesis, I make up my mind to enjoy my annuity during ten years, and then to be utterly destitute. If at the same time you continue to spend only your 800*l.* a-year, your case and mine come to be so different, that comparison of them is useless. I will afterwards consider this hypothesis separately; I think I can show that the argument is not at all affected by it. For the present, in order to give a useful parallelism, I must make you as great a spendthrift as myself, and then inquire whether the Government treats us both alike. I will say, then, that while I am spending my whole 2,000*l.* a-year, with the certain prospect of beggary at the conclusion of the ten years, you also are so far exceeding your income of 800*l.*, that at the end of the ten years your property will

be nearly all gone. I will give a schedule showing what tax you will pay during the ten years. We already know that I shall pay 9*d.* in the pound on 2,000*l.*, or 75*l.* You, of course, will pay the first year on 800*l.*, and the rest of what you spend beyond 800*l.*, will be part of your principal. For the sake of simplicity, I will suppose that your property consists of 16,000*l.* invested on interest at 5 per cent., and that you spend 2,000*l.* a-year just as I do. It will be seen that a far larger portion of my 2,000*l.* goes as income tax than is taken from you.

I now spend every year 2,000*l.*, less income tax 75*l.* = 1,925*l.*, you receive and spend as follows:—

(B.)

Years.	Property.		Interest.		Expenditure.	Excess of Expenditure over Interest.		Income Tax on Property of Previous Year.		Net Expenditure.	
	£	s. d.	£	s. d.	£	£	s. d.	£	s. d.	£	s. d.
Beginning of 1st year	16,000	— —	800	— —	2,000	—	—	—	—	—	—
End of 1st year	14,800	— —	740	— —	„	1,260	— —	30	— —	1,970	— —
„ 2nd „	13,540	— —	677	— —	„	1,323	— —	27	15 —	1,972	5 —
„ 3rd „	12,217	— —	610	17 —	„	1,389	3 —	25	7 9	1,974	12 3
„ 4th „	10,827	17 —	541	7 10	„	1,458	12 2	22	18 2	1,977	1 10
„ 5th „	9,369	4 10	468	9 3	„	1,531	10 9	20	6 1	1,979	13 11
„ 6th „	7,837	14 1	391	17 8	„	1,608	2 4	17	11 4	1,982	8 8
„ 7th „	6,229	11 9	311	9 7	„	1,688	10 5	14	13 11	1,985	6 1
„ 8th „	4,541	1 4	227	1 1	„	1,772	18 11	11	13 7	1,988	6 5
„ 9th „	2,768	2 5	138	8 1	„	1,861	11 11	8	10 3	1,991	9 9
„ 10th „	906	10 6	45	6 6	„	1,954	13 6	5	3 10	1,994	16 2
								183	19 11	19,816	— 1
Average of 10 years.	—	—	—	—	—	—	—	18	8 —	1,981	12 —

We find from this schedule that while you have spent nominally 2,000*l.* a-year, just as I have, you have paid only 184*l.* income tax, while I have paid 750*l.*, more than four times as much.

It is true, that henceforth my contributions to that tax cease, because my income has gone; but yours have all but ceased, since you are left with only 906*l.*, yielding you an income of 45*l.* 6*s.* a-year; which if it pays tax at all, will pay less than 2*l.* a-year.

If I am asked how it is that you have anything left at the end of the ten years, I reply that it is because, spendthrift as you have been, you have yet not spent so fast as quite to exhaust your principal in the ten years. You have spent nominally 2,000*l.* a-year just as I have; that is, the expenditure of each of us, including income tax, has been 2,000*l.* a-year. But your 16,000*l.*, at 5 per cent., was really worth more than my annuity of 2,000*l.* for ten

years, and that makes my case the harder, since I, with an inferior property, have paid 750*l.* against your 184*l.*

This reply suggests another mode of putting the matter. You continue, at the end of ten years, to enjoy a small income, and therefore to pay a little tax, (unless you claim a casual exemption on account of poverty). If you had from the beginning spent rather more profusely, you would now have had no income, and therefore you would have paid no tax. I, too, if I had spent faster, by borrowing on the security of my annuity, should have become income tax free at an earlier period: in nine years, or eight years, or five years. We may say generally, that the income tax may be evaded to any extent by a man who will dissipate his principal,—a self-ruining process to be sure,—but just that on which Mr. Warburton congratulates the short annuitant. A man possessed of 100,000*l.* consols when the income tax was imposed, might have avoided paying anything, by simply spending the whole of this principal at the gaming table. I, at the same period, with a ten years' annuity of 2,000*l.*, might have equally slipped through the fingers of the tax gatherer, by selling my annuity and giving or gaming the price away. If I were more mildly improvident, and merely reduced myself to beggary at the end of ten years, I should then be in the position imagined by Mr. Warburton,—I should pay no tax because I had no income.

VI.

One circumstance still requires consideration. It has been proposed that all incomes should be estimated by competent Actuaries; in which case, I with my ten years' annuity of 2,000*l.* should certainly not pay more than you with your permanent annuity of 800*l.* The fairness of the principle can hardly be disputed; its practicability is not so clear.

But suppose this practice adopted; then arises the state of things to which I want to call attention. Say first, that no income tax exists; that I become possessed of an annuity of 2,000*l.* for ten years; that I am so improvident as to save no part of my income; and that at the end of seven years a tax of 9*d.* in the pound is imposed.

At what value ought my annuity to be estimated? I may be regarded in two different lights: first, as an annuitant for ten years, of which three are unexpired; secondly, as an annuitant for only three years. If I am regarded in the first light, the actuary will go back to the period when my annuity was first granted, and will say, (still taking 5 per cent. as the rate of interest), that my ten years' annuity of 2,000*l.* is about equal to a permanent one of 800*l.*, and that on 800*l.* accordingly I ought to pay every year. But if I

am regarded in the second light, as a holder of an annuity of 2,000*l.* for three years, the estimate will be a far lower one. For what can I afford to spend during three years so as to replace by my savings during so short a time, the means of continuing the same means of expenditure? I may spend about 260*l.* a-year, and then I shall have a permanent income to that amount. My three years' annuity ought therefore to be estimated as equal to a permanent one of 260*l.*; and on that sum I ought to be taxed.

Here, then, are two highly inconsistent valuations, the one subjecting me to be taxed on 800*l.*, the other on only 260*l.*; which is the correct one? It may seem an unreasonable thing to say that the low estimate is the true one; it may be urged that in any tax on expenditure, such as customs' duties, or excise duties, or assessed taxes, I should not have escaped; and that therefore I ought not to escape here. Why should my profusion exempt me? But to this there is an unanswerable reply,—that the income tax knows nothing of the policy of encouraging frugality; that wherever it finds an income it taxes that income; that any man may evade the tax by dissipating his property. It is a means of taxing the thrifty and sparing the spendthrift. Why should my profusion be punished more than that of my neighbour?

But again it may be contended that I am not to escape by a mere accident. If the tax, it will be said, had been imposed at the beginning of the term of my annuity, I should have been set down as possessing a short annuity, equal in value to a permanent annuity of 800*l.*, and on that sum of 800*l.* I should have had to pay. It happens that the valuation has taken place seven years later, when by my prodigality a serious diminution of value has taken place; but this must be disregarded, and I must be treated as if the tax had been imposed at the beginning of my term.

For myself, I am perfectly clear that I ought to be taxed on the lower amount of 260*l.* The apparent inconsistency is caused by an incorrect notion of the character of the valuation which would take place; it is supposed that as the worth of my annuity at starting would be the same as that of a permanent annuity of 800*l.*, therefore I ought, during the currency of my short annuity, to pay on 800*l.* a-year. But this would be an injustice; that very injustice which I have already pointed out as an aggravation of the other injustice I complain of.

Referring again to my first schedule, I find that under the present unfair arrangements, I pay as follows:

- (1.) I pay on 800*l.* as you do = 30*l.*
- (2.) I pay on 1,200*l.* of principal = 45*l.*

This is during the first year.

During the second year I pay the same as during the first year,

with the addition of 2*l.* 5*s.* as 9*d.* in the 1*l.* on the interest of my investment of principal in the first year. This 2*l.* 5*s.* is the aggravation I am complaining of. It grows also, until in the tenth year it amounts to 2*l.* 16*s.* 2*d.*

Now, if the system of valuation were adopted, if at the commencement of my annuity of 2,000*l.* for ten years, I were estimated as having the same means that you possess in the enjoyment of 16,000*l.* at 5 per cent. ; this would be perfectly fair for the first year ; but in the second year, if I were still set down at a permanent annuity of 800*l.*, there would occur the injustice I am complaining of ; inasmuch as I should have to pay, not only on 800*l.*, but also on 60*l.*, the interest of my 1,200*l.* invested in the first year. The valuation would require to be made for each year : and I should be set down at 800*l.* the first year, at 740*l.* the second year, and so on, until the tenth year, when I should have to pay only on about 95*l.* 5*s.* instead of on 800*l.* Not that I should pay less than you each year on the whole : but I should pay in two different ways ; first on my annuity valued as a permanent one, and next on the interest arising from my investments.

Supposing that the estimate were correct, which makes my short annuity equal to your permanent one of 800*l.*, my income would stand thus :—

(C.)

Years.	From Estimated Permanent Annuity.	From Investments.	Total.
	£	£	£
1st year.....	800	—	800
2nd „	740	60	„
7th „	250	550	„
10th „	95	705	„

This, then, explains the apparent anomaly with which I am now dealing. It turns out that it makes no difference whether the income tax is imposed at the beginning of the period of my annuity, or during its currency : because in either case a valuation would be required for *each year* ; a valuation diminishing in amount from the first year to the tenth : a valuation of 800*l.* in the first year, and of little more than 95*l.* in the last.

VII.

I am aware of an objection, and that not a light one, which may be made to the conclusiveness of my argument. It may be said that

I have assumed a specific sum as income, and a specific rate of interest; and that other specific incomes, and specific rates of interest, might yield a different result. I reply that, if I had been engaged in a mathematical treatise, I should of course have put letters instead of figures; and I cannot deny that by employing a particular case I have failed to demonstrate my proposition. The most that I can hope is that I have raised a violent presumption in its favour.

All I can say at present is, that I cannot find that my specific assumptions have anything to do with my general results; that if four per cent. were put instead of five, that if seven or five or three years were substituted for ten, that if dollars, francs, or roubles were used in the place of pounds, I should still be exposed to the same injustice, of having to pay in my first year on what is virtually capital, of having to pay on my partial investments during the currency of my annuity, and of having to pay permanently, when my annuity had expired, on the income arising from my whole investments.

I think it is hardly necessary for me to show that my fictitious case does really represent a large number of incomes assessed under Schedule D. I do not allude merely to those persons who have an annuity terminable at the end of a fixed term of years: I allude to the much larger class of traders, and of professional men, whose incomes are generally precarious and short-lived.

Side by side, in town or country, will be found in fact two men, of whom the one enjoys an income derived from land, or houses, or the public funds; while the other is deriving his from his daily exertions, which may at any time come to an end through sickness or death, or which may be deprived of their reward through the caprice of the public, or through the inevitable vicissitudes of commerce. The former of these, if he have no motive for increasing his future income, may without imprudence spend the whole of his present receipts; the trader or professional man, if he aims merely at securing a uniform means of expenditure, must forbear from spending a large part of his present gains. These gains are taxed at the same rate as those derived from permanent property, the income derived from the savings is taxed as soon as it arises; at the end of the ten years, or twenty years, when the professional or trading income ceases, the income derived from the principal saved is taxed, without any of that exemption promised by Mr. Warburton.

More than a fourth of the whole of the income tax is derived from these terminable annuities. I am aware that in a great many instances the tax-payer relieves himself by making an insufficient return, and paying on less than he actually gains. The *class* represented under Schedule D is by no means so overtaxed as might

appear. Injustice is corrected by fraud. But this is no comfort to that large class of conscientious people who pay scrupulously to the extent of their incomes: they pay dearly for their sense of right. It would be a comfort to them to have a valid promise, instead of Mr. Warburton's fallacious one, that the income derived from their savings should not be taxed. But this is not the case, and cannot be the case.

VIII.—*Recapitulation.*

I will now recapitulate with some fulness, the facts and arguments which I have brought forward.

1. In the first place I have stated that I am no friend to the Income Tax, and I have assigned my reasons for my enmity to it.

2. Secondly, having stated the opinion I propose to combat, having noticed the short and scientific refutation of it by Dr. Farr, I proceed to what I hope may be a more popular explanation of the arguments against it.

3. I suppose a case by way of illustration. I imagine myself to possess an annuity of 2,000*l.* for *Ten* years, while I assign to another person, whom I am addressing, a *Permanent* annuity of 800*l.*; and I show that even reckoning interest at 5 per cent., my short annuity of 2,000*l.* is not worth more than the permanent annuity of 800*l.* I assume that I ought not to pay more income tax than the permanent annuitant, because I am in no better position than he is.

4. Taking the hypothesis that I spend 800*l.* a-year and invest the remaining 1,200*l.* which I receive annually, I inquire what will be the result at the end of the first year, at the end of the second year, and so on. I show that there is some hardship at the end of the first year, a still greater at the end of the second, and an increasing hardship every year.

5. But when I come to the end of the tenth year, the greatest hardship of all arrives. I was promised that henceforward I should be free of income tax, but I find that I have to pay permanently on 800*l.* a-year, which is the income resulting from the principal I have saved.

6. I then inquire how it is that Mr. Warburton and others should have overlooked these obvious facts. I reply that other, and more distinguished, men have made errors as great with regard to the rate of interest, the sinking-fund, and the usury laws.

7. I now revert to the hardship which I have alleged that I suffer in an increasing proportion at the end of each year. I show to what it amounts.

8. I next ask: what if I do not save? I reply that in that case, I shall be, at the end of the ten years, in a state of destitution: and that in order to compare myself with the permanent annuitant, I

must assume that he is equally improvident, that is, that during the ten years he spends the whole of his principal. I then investigate what income tax we shall both of us pay; and I find that my payments will be very far the greater.

9. This leads me to remark, that by spending our principal we certainly avoid all future income tax; and further, that all income tax whatever may be evaded by the simple contrivance of wasting the whole of one's property.

10. I next inquire what would be the consequence of estimating the principal value of incomes. I point out that if the tax were imposed during the currency of my annuity I might be regarded in two lights,—either as the possessor of an annuity for ten years, of which five had expired and five still remained, or simply as the possessor of an annuity for five years. I conclude that the latter valuation is the true one; and further, that every annuity ought to have a separate valuation for every year that it subsists.

11. Lastly, I consider the objection that my argument is founded on specific sums of money, and a particular rate of interest. I try to show that my assumed case does really represent a large class of facts in real life.
